

Testimony of

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PRESIDENT AND CEO
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Before the

Select Committee on Energy Independence and Global Warming
United States House of Representatives

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Thank you, Mr. Chairman and members of the Committee for inviting me to present testimony regarding the natural gas market and, more specifically, the role of liquefied natural gas (LNG) in the larger marketplace.

My testimony today will concentrate on three important points related to LNG.

First, I think it is important to recognize that LNG can contribute substantially to a region's energy supply. For instance, our terminal in Everett, Massachusetts has operated safely and reliably for 37 years and meets 20% of New England's natural gas demand. LNG supplied to the region from the terminal meets 35-40% of region's demand on peak days. In addition we are supplying the fuel for one of New England's largest electric generating stations, a 1,550 megawatt powerplant, which can generate enough electricity for approximately 1.5 million homes each year. If LNG resources were not available in New England, supplies would be far tighter and consumers would suffer.

That circumstance also pertains in other places, especially in those places at or near the end of the pipeline system or where pipeline capacity is not as robust as it could be. In New England, we are in the process of initiating construction of our new offshore regasification system designed to supplement our cargoes into Everett. The Neptune Project will consist of specially designed vessels that will both transport and regasify LNG, which will then be able to be delivered into the HubLine sub-sea pipeline. Neptune has been designed to provide on average an additional 400 Mcf per day to the New England market, providing the energy the region needs to keep growing.

In Florida, we recently received the final Environmental Impact Statement and are working to complete the permitting process for a similar offshore regasification facility near Ft. Lauderdale which will bring much-needed gas to another area that is at the end of the pipeline system. That project could ultimately bring as much as 1 Bcf of natural gas per day into a Florida market whose need for the additional supply grows every day.

In short, wherever there is a regasification facility, LNG keeps downward pressure on prices by helping to diversify and increase a region's energy supply. By competing openly and fairly with gas delivered via pipeline, LNG helps ensure that consumers get the best deal possible.

There are two other important advantages of LNG. First, LNG helps us access the ample supplies of natural gas around the world. Estimates of the total world supply of traditional natural gas hover just north of 6 quadrillion cubic feet, and more reserves of natural gas continue to be discovered. Much of this natural gas is stranded a long way from market, or in countries that do not need large quantities of additional energy. Second, liquefying natural gas and shipping it is more economical than transporting it in pipelines for distances of more than about 700 miles offshore or more than 2200 miles onshore.

Second, even with our obvious enthusiasm for LNG, we recognize that LNG alone cannot meet all of our growing needs for natural gas. We view LNG as an important energy source in addition to other North American natural gas supplies, not as a substitute for them.

LNG needs to be thought of as complementary to our current resource base. This is a very important point. We think that all stakeholders should recognize the fundamental reality that we need to better access and develop our Nation's natural resource base.

We believe that the U.S. must increase its domestic production of natural gas. Recent legislative, regulatory and market trends have placed greater demands on our gas supply without taking commensurate steps to increase production. It seems likely that the regulatory drive to increase reliance on natural gas for a host of purposes, including electric power generation and transportation will not abate any time soon. Such policies strike me as unwise in the absence of any plans to develop more natural gas resources through domestic production and increased LNG imports to the U.S. market.

According to the Energy Information Administration (EIA), natural gas production in the U.S. is predicted to decrease from 20.0 Tcf in 2007 to about 19.4 Tcf in 2030. At the same time, total natural gas consumption is expected to increase from 23 Tcf in 2007 to about 25 Tcf in 2025. It is not complicated math to see that demand is outstripping supply. We can talk for a long time about the reasons for higher prices, but the underlying fundamentals are pretty clear. When demand is increasing and supply is steady or dropping, it makes no difference whether you are buying and selling toast or helicopters or natural gas – prices are going to increase.

And it seems unlikely that the market for traditional fuel sources will go away anytime soon. We at SUEZ currently have 251 megawatts of renewable capacity installed, another 179 megawatts under construction, and yet another 2000 megawatts in development. At the same time, it is important to recognize that in 2007 renewables accounted for 4.4 quadrillion Btus of the more than 101 quads of energy that we consumed. By comparison, fossil fuels accounted for 86 quads of energy last year. The story the data tell seems pretty straightforward. Traditional fuels – including natural gas – are going to be the backbone of the energy system for at least a little while longer.

Consequently, many are concluding that LNG represents an important part of the long-term natural gas supply solution. I think we can be an important part. In the last few years, expansions of current facilities and new LNG regasification facilities have raised capacity in North America to around 10 Bcf per day now, with another 3.8 Bcf per day capacity currently under construction in North America. We expect that by 2015 the total regasification capacity in North American will be about 20 Bcf per day.

Precisely because it provides unique flexibility, LNG will continue to grow as a resource for the United States. In our ongoing effort to diversify our supply of energy, LNG's exceptional and exclusive ability to transport what was once stranded natural gas from various sources can only help. In short, increased access to global reserves of energy helps us reduce our dependence on any one source.

Additionally, as response to demand becomes more important, our ability to move natural gas to where it is needed, freed in part from the constraints of pipelines, will ensure that LNG is an increasingly important element in our Nation's energy supply portfolio. Simply put, LNG offers greater trade flexibility than pipeline transport, allowing cargoes of natural gas to be delivered where the need is greatest and the commercial terms are most competitive.

In the near term, even though 2008 imports of LNG are projected to be about half of 2007 imports, they are projected to return to 2007 levels in 2009 and increase thereafter. This quick recovery is because additional liquefaction capacity in West Africa and the Middle East, which will serve the Atlantic basin, will be coming on line shortly.

As EIA has noted, while bouncing a bit over the last few years, the general trajectory of LNG imports into the United States has been increasing, from nearly 240 Bcf in 2001 to 771 Bcf last year (which represents a little less than 3% of total demand). Factors ranging from additional sources of supply to lowered costs for liquefaction and shipping have contributed to the increase. EIA has projected that by 2030 we could bring as much 2.8 Tcf of LNG into the United States, which could be as much as 10% of total demand.

On a final and related note, it is also important for policymakers who are concerned with our energy security and carbon emissions to look at opportunities to further improve the use of natural gas in electric power generation. Right now, natural gas accounts for about 20% of electricity generation, and it is clear that it is being looked to as the bridge fuel for power generation for the foreseeable future. It is important for policymakers to ensure that incentives are in place to use the most efficient and cost effective power plants in the natural gas generation fleet.

Unfortunately, in some regions -- particularly those that have not adopted competitive and fully transparent wholesale power markets -- older, less efficient natural gas power plants continue to operate while newer, more efficient and cleaner natural gas plants remain idle or underutilized. Such inefficient use of natural gas not only increases emissions and wastes natural gas, but increases the electricity costs for the consumer. More transparent wholesale power markets and increased investment in the electric transmission grid can significantly improve the efficient use of natural gas while lowering cost to consumers.

Third, I would like to address for a moment the international aspects of LNG.

It is important to recognize that while LNG is a global commodity, it is premature to talk about a “world gas price”. In reality, there are several regional markets for natural gas, and the prices in each one vary according to local circumstances, needs, and even legal and regulatory traditions and precedents.

At the same time, with respect to LNG, it is important to note a few features. First, globally, there is more regasification capacity than there is liquefaction capacity. That is the nature of the LNG business model – more regasification capacity provides flexibility in supply and price responsiveness to markets. While this imbalance may moderate as more liquefaction comes on line in the next few years, for right now at least that means that regasification facilities compete for supply. Some companies hedge some of this by engaging in long-term contracts. We have committed supply to the region, but the reality is that some growing portion of the LNG marketplace – perhaps as much as 20% -- consists of divertible cargoes. That means that the divertible LNG will go where the prices are highest. It does not necessarily mean that world prices will converge.

Second, the presence of LNG means that there are some interrelationships between the regional natural gas markets. For instance, when Japan’s gas demand spiked last Autumn due to a shutdown of some of their nuclear units, divertible LNG went to Japan. Similarly, when the price of natural gas in Great Britain dropped last Spring and Summer, divertible LNG wound up being shipped to the States. That is neither good nor bad; it reflects market dynamics.

As we think about these things, it is important to note that we are talking about amounts on the margins of global natural gas demand and consumption.

Third, I know that there is some concern about the potential for those nations who control much of the LNG supply and liquefaction to join together in a way that will ultimately serve to damage the United States. Experience with international cartels is that they have limited ability to set the price of a resource over the long-run. Additionally, the fact is that that possibility will exist whether we utilize extant global LNG resources or not. We think it makes no sense not to engage in international energy trade when and where the costs are competitive with the costs to produce energy in North America.

That said, we are taking steps to minimize our customers' exposure to any possible market pathology. We are working with the companies and Nations which supply LNG to ensure that we have access to long-term supplies at reasonable prices. Most of our gas right now comes from Trinidad, and we are confident both that they have sufficient resources for our needs and that our relationships with them are sturdy and enduring.

Thank you again, Mr. Chairman and Members of the Committee for inviting me to present our thoughts on possible approaches to help moderate natural gas prices and, more specifically, the role of liquefied natural gas in the larger marketplace. I look forward to answering any questions you might have and working with the Committee on these very important issues.